INTER-OFFICE COMMUNICATION

Date: 12/15/2017

TO: Theodore Lipscomb, Sr., Chairman, Milwaukee County Board of Supervisors
Peggy West, Chair, Finance & Audit Committee

FROM: Michael Stanke, Manager of Benefits and HRIS Division MS

SUBJECT: **Report from the Manager, Employee Benefits Division, Department of Human Resources, regarding stop loss coverage for Milwaukee County's medical plans**

Issue/Background

Milwaukee County purchases stop loss insurance as a means of mitigating the risk exposure of catastrophic medical claims incurred under the County's self-funded health plans. In terms of process, the stop loss component has been treated as an ancillary agreement to the total health care contract, as the health care contract controls the County's risk exposure related to excessive health care costs. Stop loss coverage is a separate component from the medical Third-Party Administration (TPA) contract because it is a purchased insurance policy, as opposed to a professional service contract. Stop loss policies are generally negotiated and written on an annual basis.

Historically, the market for stop loss insurance in general has been challenging. The County's stop loss policies have been no exception. In the 2017 renewal process, United Healthcare (UHC) was one of only two firms to submit a quote for this coverage.

The market for stop loss insurance continues to be difficult for 2018 based on the aging retiree population which is included under this policy. Willis Towers Watson Consulting Group negotiated a renewal quote from UHC at the current $300,000 deductible, at $350,000, and at $400,000. Willis also solicited competing bids from ten firms: Munich Re, Berkshire Hathaway, Berkley, Voya, Guardian, QBE, AIG, HCC, Sun Life, and Symetra. Of the ten alternative vendors, only United Healthcare and Voya were competitive. Seven of the ten vendors solicited declined to quote being uncompetitive.

UHC's 2018 Options

(1) $300,000 Deductible:

- Maintains the current individual risk limit at $300,000 deductible
- No external stop loss reporting fees
- $45.72 Per covered member per month (PMPM); an increase of $873,128.76 over 2017 premium costs
- No lifetime maximum

(2) $350,000 Deductible:

- Quoted rate of $36.96 PMPM; a $145,383 increase in premium over UHC's $300,000 deductible rate for 2017
- Adjusts the County's risk exposure to keep pace with inflation

(3) $400,000 Deductible:

- Quoted rate of $30.31 PMPM; a $407,072 decrease in premium over UHC's 2017 $300,000 deductible rate, but an increase in the deductible. The $400,000 deductible has a lower premium rate, however exposes the County to all claims up to $400,000.
- Adjusts the County's risk exposure to keep pace with inflation

Alternative Quote from Voya
$300,000 Deductible:

- Maintains the current individual risk limit at $300,000
- The quoted rate plus $1.00 per employee per month external reporting fee results in total costs $464,394 higher than the UHC bid at $350,000.
- No coverage for claims incurred prior to 2017 (24/12 contract)

The Benefits Division, the Budget Office and the Comptroller evaluated all options and recommendations presented by Willis Towers Watson. While the Benefits Division supports periodically increasing the stop loss threshold to adjust for inflation, the UHC rate quotes at $350,000 and $400,000 deductibles provide sufficient premium savings to offset the increased claims risk to the County. The alternative quote from Voya is not an attractive option based on the lack of savings provided in this quote.

Summary of Request
The Benefits Division agrees with the Willis Towers Watson assessment that the final proposed increase for a $350,000 deductible is the County's best option given the relatively poor stop loss insurance market, the County's claims experience, and the demographics of the County's covered population. Consequently, the Benefits Division recommends approval for purchasing the stop loss insurance policy quoted by UHC with a $350,000 deductible effective January 1st, 2018.

There are two key distinctions regarding UHC that need to be acknowledged. First, as an internal stop loss, reimbursement of stop loss claims occurs immediately upon processing the claim. In other words, Milwaukee County never pays claims beyond the stop loss deductible. The Voya policy would administer an external stop loss, which would require the County to pay the claims up front, and then wait for the reimbursement. Second, UHC's contract would be a "paid" contract, which means that they will include all claims paid in the 2018 plan year. Voya would only consider claims incurred in 2017 and paid in 2018 (24/12).

CC: County Executive Chris Abele

Raisa Koltun, Chief of Staff
Kerry Mitchell, Chief Human Resources Officer
Margaret Daun, Corporation Counsel
Supervisor Sheldon Wasserman, Vice Chair, Personnel, Finance & Audit Committee
Kelly Bablitch, Milwaukee County Board of Supervisors Chief of Staff
Teig Whaley-Smith, Director of Administrative Services
Stephen Cady, Comptroller's Office
Rick Norris, Director, Office of the Community Business Development Partners
Amy Pechacek, Director, Risk Management